

## 12 Household assistance measures for the Carbon Pollution Reduction Scheme

### Outline

This section outlines the impacts on households of the Carbon Pollution Reduction Scheme and the Australian Government's proposed household assistance measures.

### Key points

- The Australian Government is committed to providing assistance to households for the introduction of the Carbon Pollution Reduction Scheme. The assistance is designed to help meet the overall cost of living from the scheme, especially for low-income households.
- The mechanism for the delivery of assistance and the existing tax-transfer system will be considered by the Australia's Future Tax System review.

### 12.1 Impacts of the scheme on households

The Australian Government's *Carbon Pollution Reduction Scheme Green Paper* (Australian Government 2008c) outlines the ways in which the scheme will affect households.

First, it will change the relative prices of goods and services faced by all households. It will also affect particular groups of households (such as workers in particular industries, or regional communities) directly through changes in production patterns in the economy, and may change the value of companies owned by some households.

#### Price impacts

All households will face changes in the relative prices of the goods and services that they purchase as carbon prices are incorporated into businesses' cost structures. The precise impact of the scheme on the prices of particular goods will depend on many factors and will change as production practices evolve. However, as a general principle, the prices of goods that are emissions intensive to produce will rise relative to those that are less emissions intensive to produce.

Final decisions on scheme coverage will also affect the ultimate price impacts of the scheme. If the initial coverage of the scheme includes all emissions sources other than those from agriculture and land use, and given the offsetting adjustment to fuel taxes, it is likely that price impacts will initially be concentrated in electricity and gas prices. The prices of other goods will also rise as the carbon price permeates the economy. The extent of the increase will depend on the emissions embodied in the production of the good or service; the extent

to which the threat of imports limits the ability of producers to pass through cost increases; and the availability of substitutes.

## Impact of structural changes

The demand for goods which are less emissions intensive to produce or which enable firms to lower their carbon footprint is likely to increase. Conversely, demand for goods that are more emissions intensive to produce is likely to decrease. This will induce structural change in the economy, both initially and into the future, opening up employment opportunities in some industries and regions while constraining them in others.

To some extent, these changes in production patterns are not unlike the changes that take place on a continual basis in any dynamic economy. The Australian economy has proven resilient to a wide range of domestic and international shocks in recent decades because its flexible structure allows resources (both capital and labour) to move between industries based on the market's assessment of where they would be most productively employed. This flexibility has enabled a protracted period of strong economic growth, even in the face of sometimes quite difficult global circumstances. Australia is, therefore, well placed to manage changes in production patterns in response to the new challenges posed by climate change – the critical issue is to recognise that a flexible, responsive economy will manage change best and will provide new opportunities for sustained employment and economic growth, and higher living standards.

However, workers and regions are generally less able to diversify their income sources than businesses, so it is appropriate for the Government to provide targeted assistance to address instances where a clear and sizeable burden might be imposed on particular segments of the community, such as a group of workers or a particular region.

While existing structural adjustment measures provide a means to assist affected workers and regions, the Government proposes providing additional support as required through the Climate Change Action Fund and the Electricity Sector Adjustment Scheme. This assistance would be designed to facilitate structural adjustment for individual firms, workers and regions.

## Wealth impacts

A more diffuse impact of the scheme on households will be through its effect on wealth. The scheme will affect the value of companies, increasing the value of some and reducing the value of others. These changes in value will ultimately flow through to the owners of companies. To the extent that individual households have diversified wealth holdings, the value of some of their assets may increase while the value of others may decrease in response to the introduction of the scheme.

In taking a decision to hold wealth in a particular company, individuals must assess the likely risks and returns to that company. It would be inconsistent with past practice and inappropriate for the Government to provide compensation to households for wealth effects flowing from a policy decision. However, the Government's provision of industry assistance measures may reduce these wealth effects to some extent.

## 12.2 Broad distributional price impacts

The Australian Government's *Carbon Pollution Reduction Scheme Green Paper* provided an outline of the scheme's impact on distributional price impacts.

The overall price impact of the scheme on an individual household's welfare will always be difficult to quantify. It will depend on many factors including:

- the carbon price (or the price of permits);
- the extent to which the carbon costs are reflected in individual retail prices;
- individual consumption patterns;
- individual households' levels of disposable income;
- the assistance provided to households by the Government to manage the impacts of the scheme; and
- the ability of households to adjust consumption patterns in response to higher carbon prices. For example, those households with higher disposable incomes can more readily access capital markets to undertake energy efficiency home improvements. This is not necessarily the case for households on lower incomes or with greater debt.

## 12.3 Australian Government's commitments to assist households

The *Carbon Pollution Reduction Scheme Green Paper* outlined the Australian Government's commitments to assist households.

The revenue provided by the auctioning of the carbon pollution permits provides the Government with the capacity to assist Australians – households and businesses – adjust to the scheme.

The Government has committed that every cent raised for the Australian Government from the Carbon Pollution Reduction Scheme will be used to help Australians – households and business – adjust to the scheme and to invest in clean energy options.

In order to give households time to adjust to the scheme, the Government will make an offsetting cut in fuel taxes as part of a broader on-going response to the rise in the cost of transport fuel which continues to strongly affect Australian households and transport businesses. The Government will cut fuel taxes on a cent for cent basis to offset the initial price impact on fuel associated with the introduction of the scheme. The Government will periodically assess the adequacy of this measure for three years and adjust this offset accordingly. At the end of the three year period the Government will review this adjustment mechanism.

The Government is also committed to provide low-income households with increases in assistance through the tax and payment system and all households with other assistance to address the impact on their living standards.

The Australian Government is committed to:

- Increase payments, above automatic indexation, to people in receipt of pensioner, carer, senior and allowance benefits and provide other assistance to meet the overall increase in the cost of living flowing from the scheme.
- Increase assistance to other low-income households through the tax-transfer system to meet the overall increase in the cost of living flowing from the scheme.
- Provide assistance to middle-income households to help them meet any overall increase in the cost of living flowing from the scheme.
- Review annually in the Budget context the adequacy of payments to beneficiaries and recipients of family assistance to assist households with the overall impacts of the scheme, noting that these payments are automatically indexed to reflect changes in the cost of living.
- Provide additional support through the introduction of energy efficiency measures and consumer information to help households take practical action to reduce energy use and save on energy bills so that all can make a contribution.

As long as support to households takes the form of cash or measures that are not linked to the amounts of specific emissions-intensive products that are consumed (such as electricity or gas), this assistance should not blunt the incentives for households to change their behaviour in ways that result in lower emissions. In relation to fuel, given recent significant increases in global energy prices and the current cost of living pressures facing households, the Government recognises that households already face strong incentives to reduce their fuel use.

The Australia's Future Tax System review will consider the mechanism for delivering assistance for the Carbon Pollution Reduction Scheme. This will include consideration of how assistance will interact with existing:

- transfers;
- income tax arrangements; and
- taxes on fuel.